

KONE Result presentation 2019

JANUARY 28, 2020

HENRIK EHRNROOTH, PRESIDENT & CEO

ILKKA HARA, CFO

Q4 2019 Highlights

- Continued good growth in all regions and all businesses
- Improved adjusted EBIT margin
- Important strategic milestone: launch of DX Class elevators
- Dividend proposal EUR 1.70 per class B share



Q4/2019 Key figures



SOLID SALES GROWTH AND IMPROVED MARGIN

		Q4/2019	Q4/2018	Change	Comparable change
Orders received	MEUR	1,988.3	1,937.9	2.6 %	0.7 %
Order book	MEUR	8,051.5	7,950.7	1.3 %	-0.6 %
Sales	MEUR	2,684.6	2,443.4	9.9 %	7.9 %
Operating income (EBIT)	MEUR	356.4	292.5	21.8 %	
Operating income margin (EBIT %)	%	13.3	12.0		
Adjusted EBIT	MEUR	367.5	319.6	15.0 %	
Adjusted EBIT margin	%	13.7	13.1		
Cash flow from operations (before financing items and taxes)	MEUR	385.7	331.6		
Basic earnings per share	EUR	0.54	0.45		

1-12/2019 Key figures



SOLID EARNINGS GROWTH WITH STRONG CASH CONVERSION

		1-12/2019	1-12/2018	Change	Comparable change
Orders received	MEUR	8,399.8	7,797.0	7.7 %	5.9 %
Order book	MEUR	8,051.5	7,950.7	1.3 %	-0.6 %
Sales	MEUR	9,981.8	9,070.7	10.0 %	8.2 %
Operating income (EBIT)	MEUR	1,192.5	1,042.4	14.4 %	
Operating income margin (EBIT %)	%	11.9	11.5		
Adjusted EBIT	MEUR	1,237.4	1,112.1	11.3 %	
Adjusted EBIT margin	%	12.4	12.3		
Cash flow from operations (before financing items and taxes)	MEUR	1,549.6	1,150.1		
Basic earnings per share	EUR	1.80	1.63		

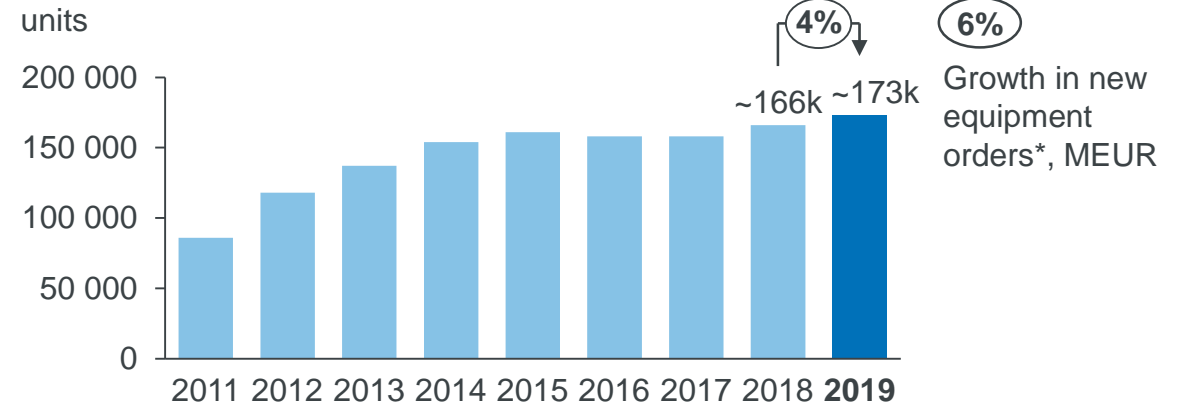
Winning with Customers is taking us towards our strategic targets



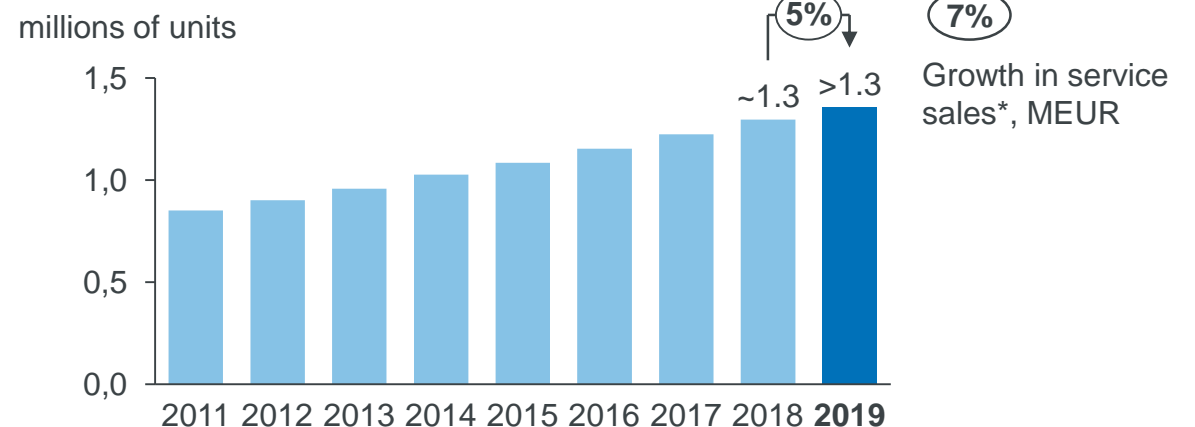
BUSINESS HIGHLIGHTS IN 2019

- Customer focus and continued investments in differentiation drive improved margins and value per unit
 - New services and solutions
 - KONE's reputation as a reliable partner
- Opening of the new factory in Chennai, India
- Recognition for continuous improvements in sustainability
 - CDP A
 - Global 100 most sustainable corporations - Corporate Knights

New equipment orders



Maintenance base



* At comp. FX, service sales includes maintenance and modernization

KONE DX Class

A NEW ERA FOR ELEVATORS – UPGRADEABLE SOLUTION THROUGHOUT THE LIFECYCLE OF A BUILDING



Create value with connected people flow solutions

Connecting elevators with new services using KONE's digital platform and secure APIs

Differentiating with a redefined user experience

Customizable, multisensory experiences and enhancements like anti-stain, -scratch and -bacterial surfaces materials

Partner for smarter buildings

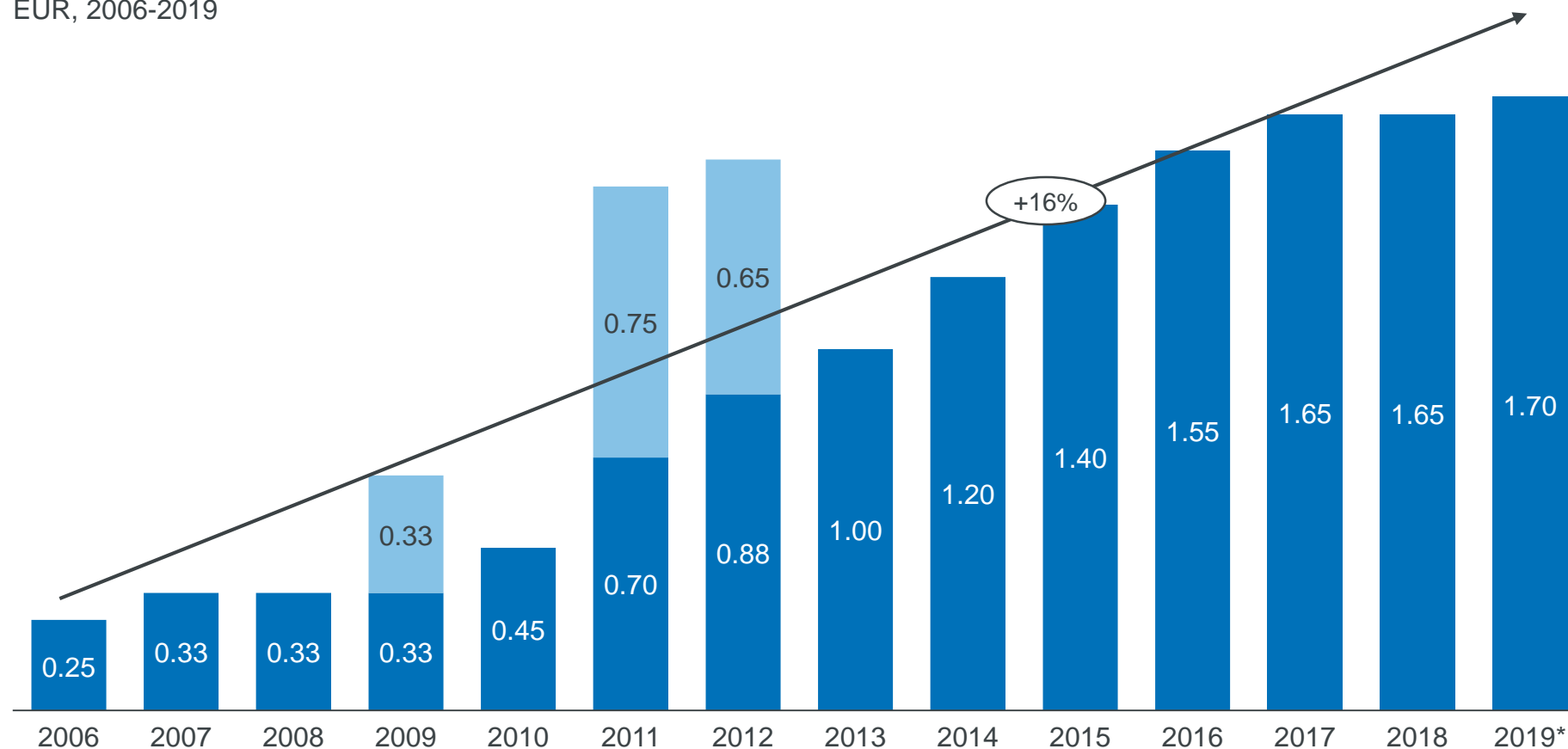
Next-generation planning tools, sustainable materials and expert support in building smarter and greener and keeping projects on track

Dividend proposal: EUR 1.70 per class B share



Split-adjusted dividend per class B share

EUR, 2006-2019



Adjusted for share splits in 2008 (1:2) and 2013 (1:2)

* Board's proposal

- Dividend payout in 2019: 94% of earnings per share
- Effective dividend yield, 2019: 2.9%

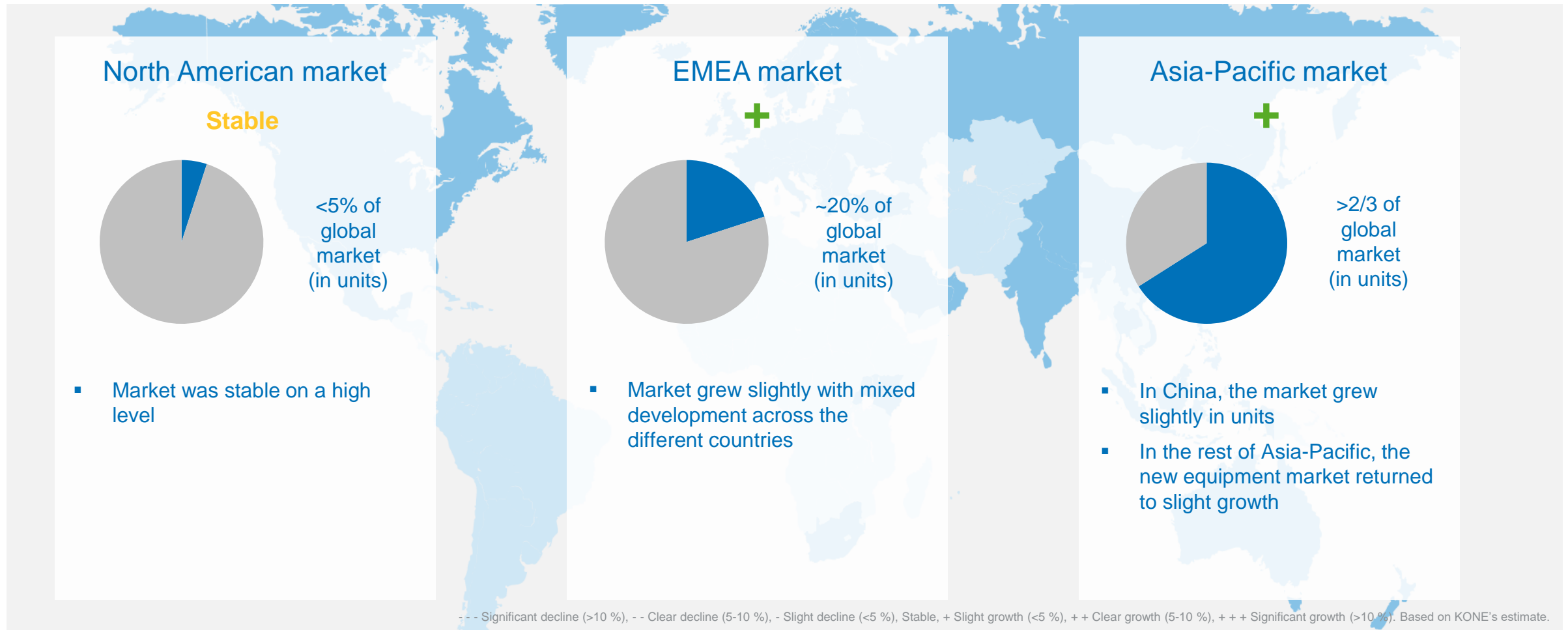
■ Ordinary dividend
■ Extraordinary dividend

Market development



New equipment market development in Q4/2019

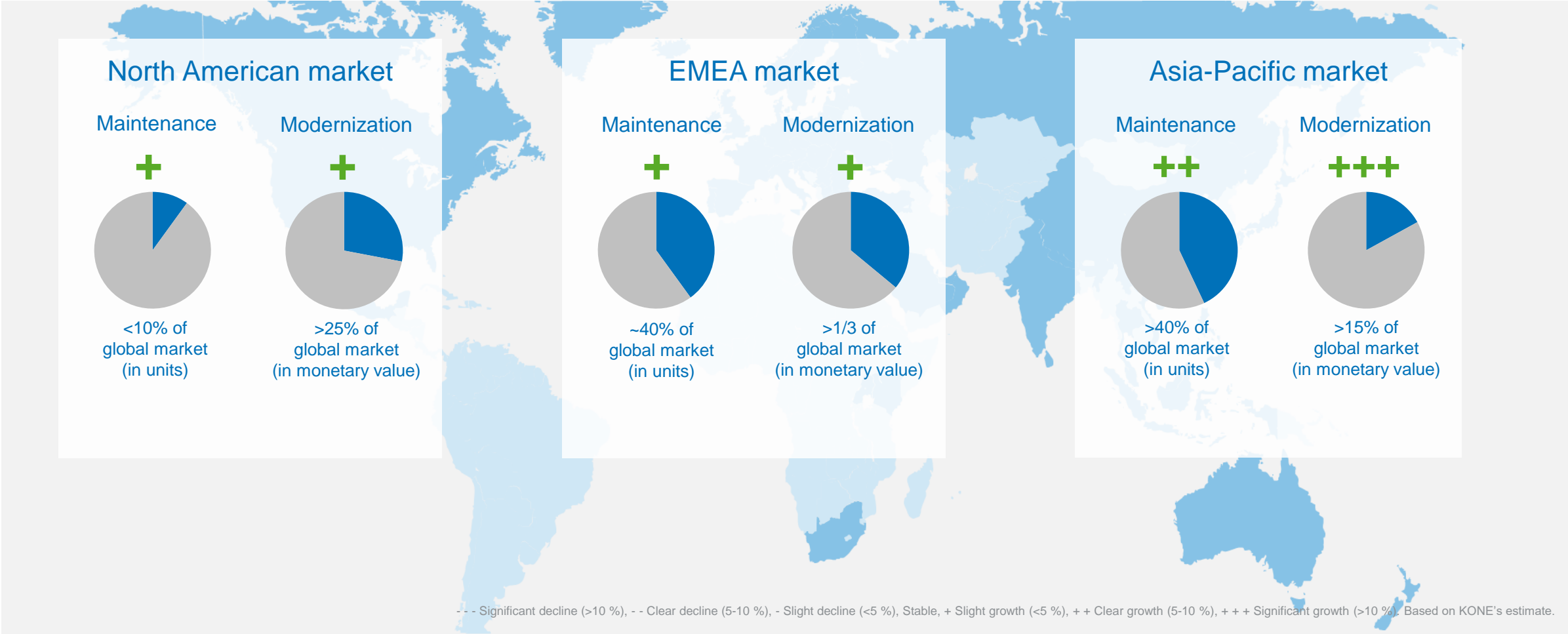
NEW EQUIPMENT MARKET GREW SLIGHTLY



Service market development in Q4/2019



CONTINUED POSITIVE DEVELOPMENT



Chinese property market in Q4/2019



GOVERNMENT CONTINUES TO BALANCE BETWEEN SUPPORTING THE ECONOMY AND RESTRICTIONS IN THE RESIDENTIAL MARKET



- In units ordered, the new equipment market grew slightly y-o-y
- Pricing environment was fairly stable



- Government continued to support the economic activity through infrastructure investments while maintaining restrictions in the residential market
- Construction activity stayed at a high level
- Improved liquidity situation in the market towards the end of the year



- Real estate investment +7.3% y-o-y in December
- Residential sales volume +0.1% y-o-y and new starts +8.3% y-o-y in Q4
- New home prices in the 70 biggest cities +6.8% y-o-y in December



- Consolidation among property developers continues

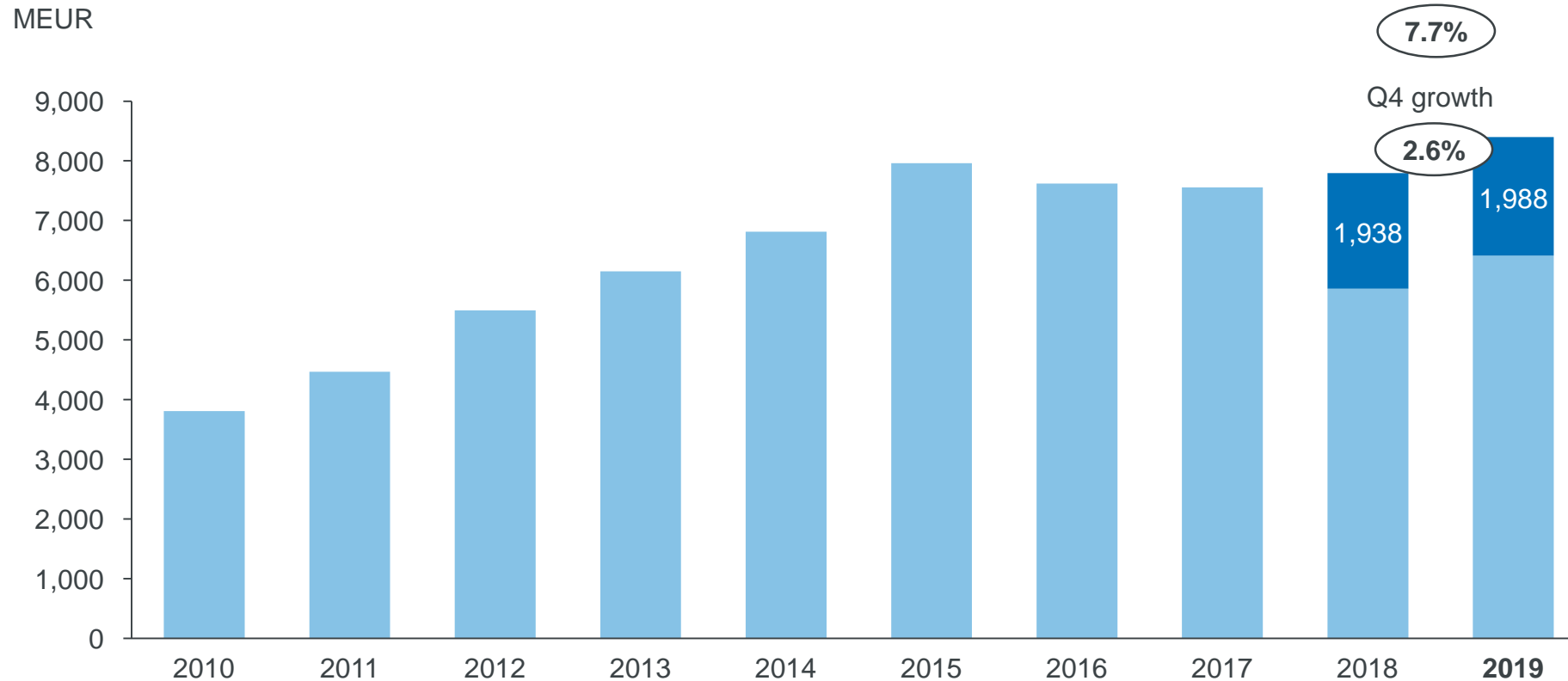
Q4 and 2019 Financials



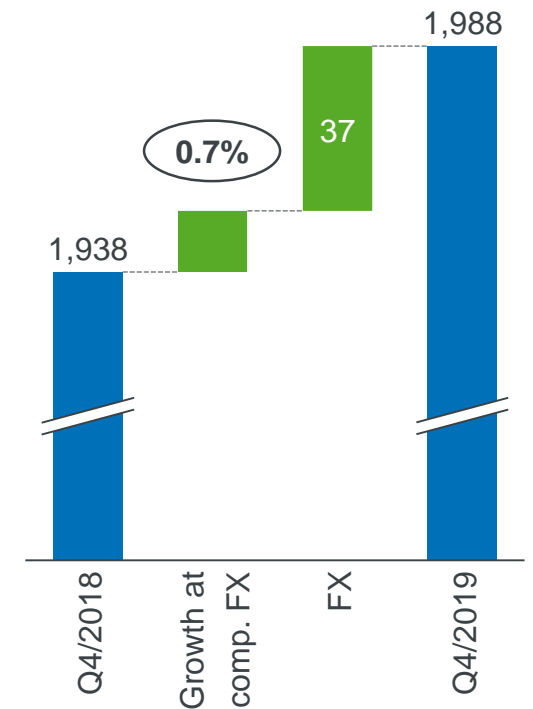
Orders received



CONTINUED CLEAR GROWTH IN THE VOLUME BUSINESS, LESS MAJOR PROJECT ORDERS IN Q4

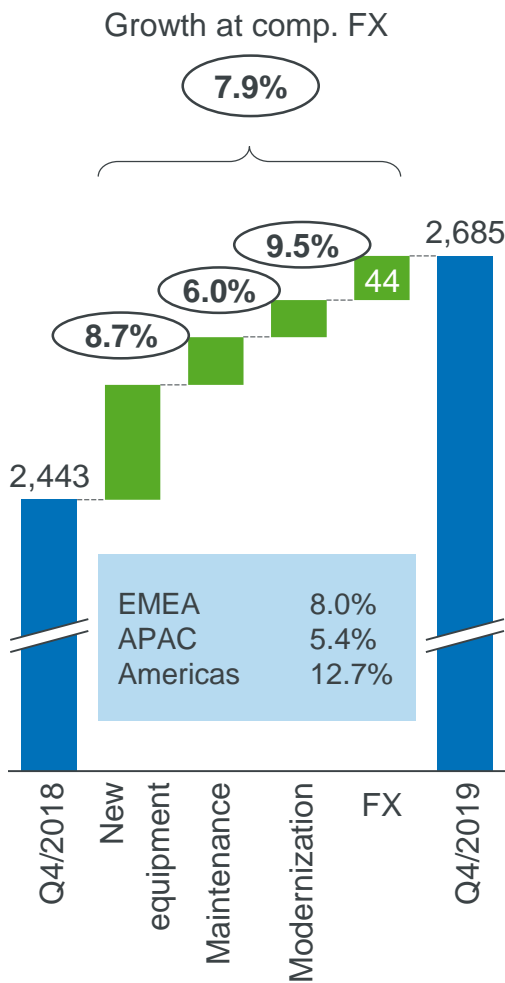
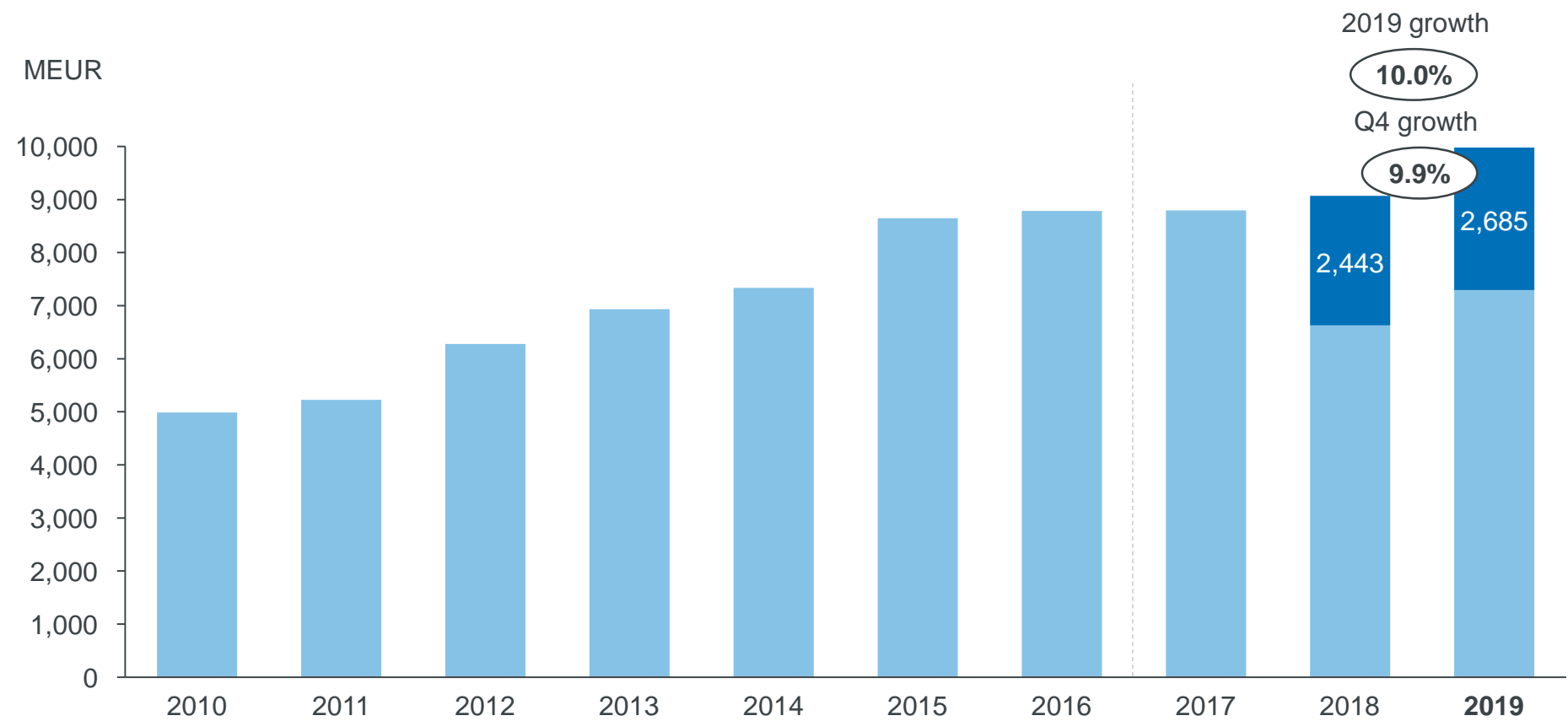


- In Q4, the margin of orders received improved slightly



Sales

STRONG SALES GROWTH IN ALL BUSINESSES



KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2010-2016 are not restated and thus not fully comparable.

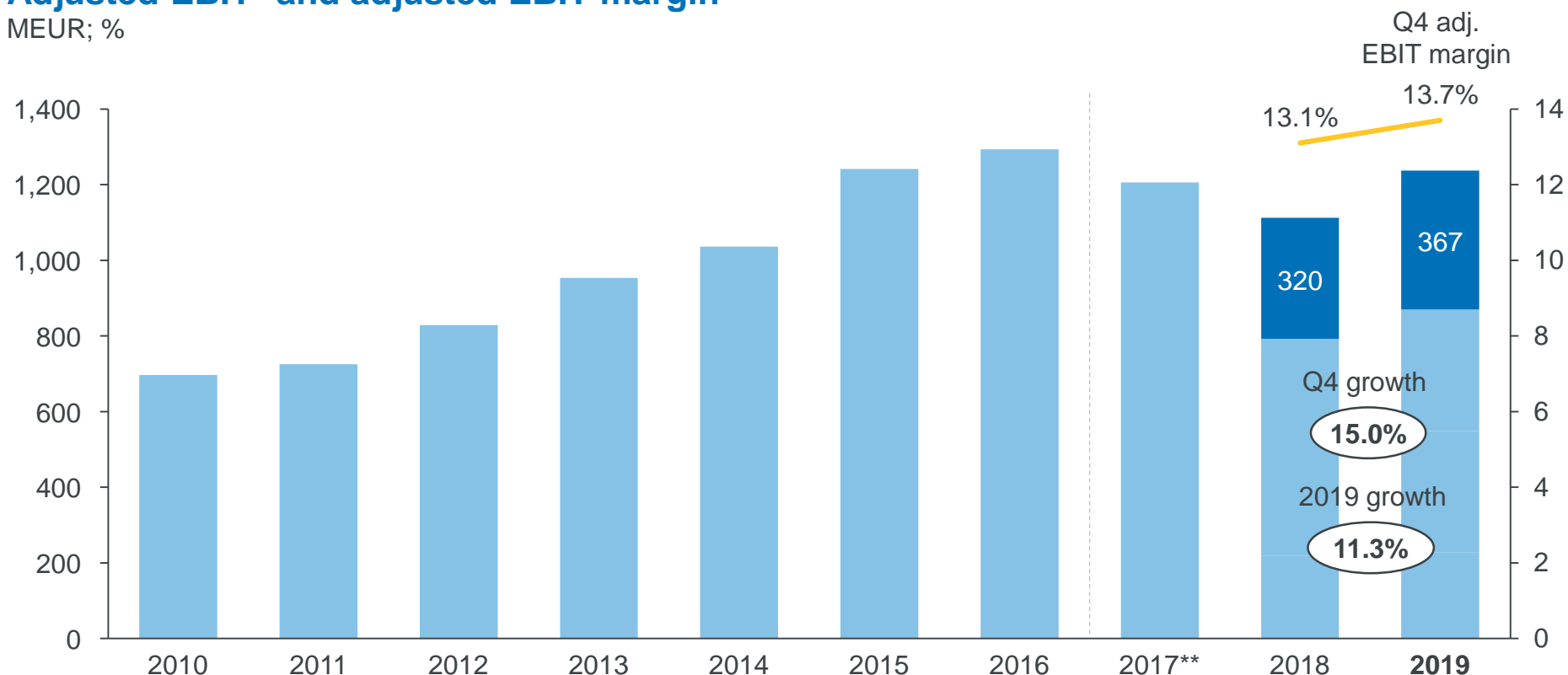
Adjusted EBIT

STRONG PROFITABLE GROWTH

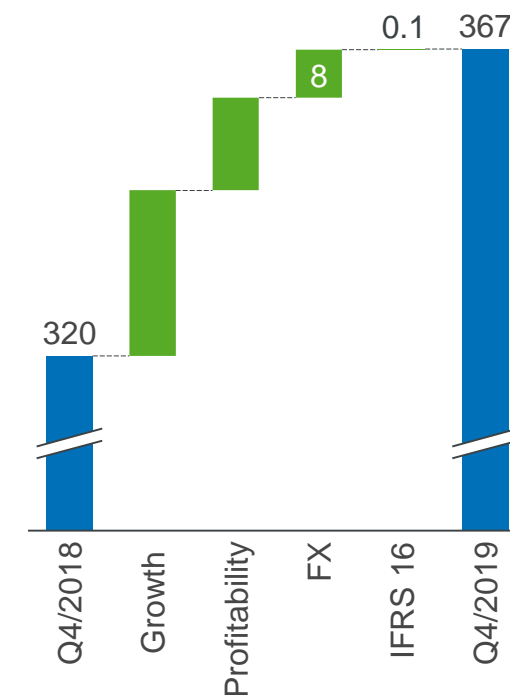


Adjusted EBIT* and adjusted EBIT margin

MEUR; %



- In Q4, restructuring costs related to the Accelerate program: EUR 11.1 million



* Adjusted EBIT was introduced in September 2017. Adjusted EBIT excludes restructuring costs related to the Accelerate program

** KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2010-2016 are not restated and thus not fully comparable

KONE has adopted the new IFRS 16 effective January 1, 2019 using the modified retrospective approach and the comparative figures have not been restated.

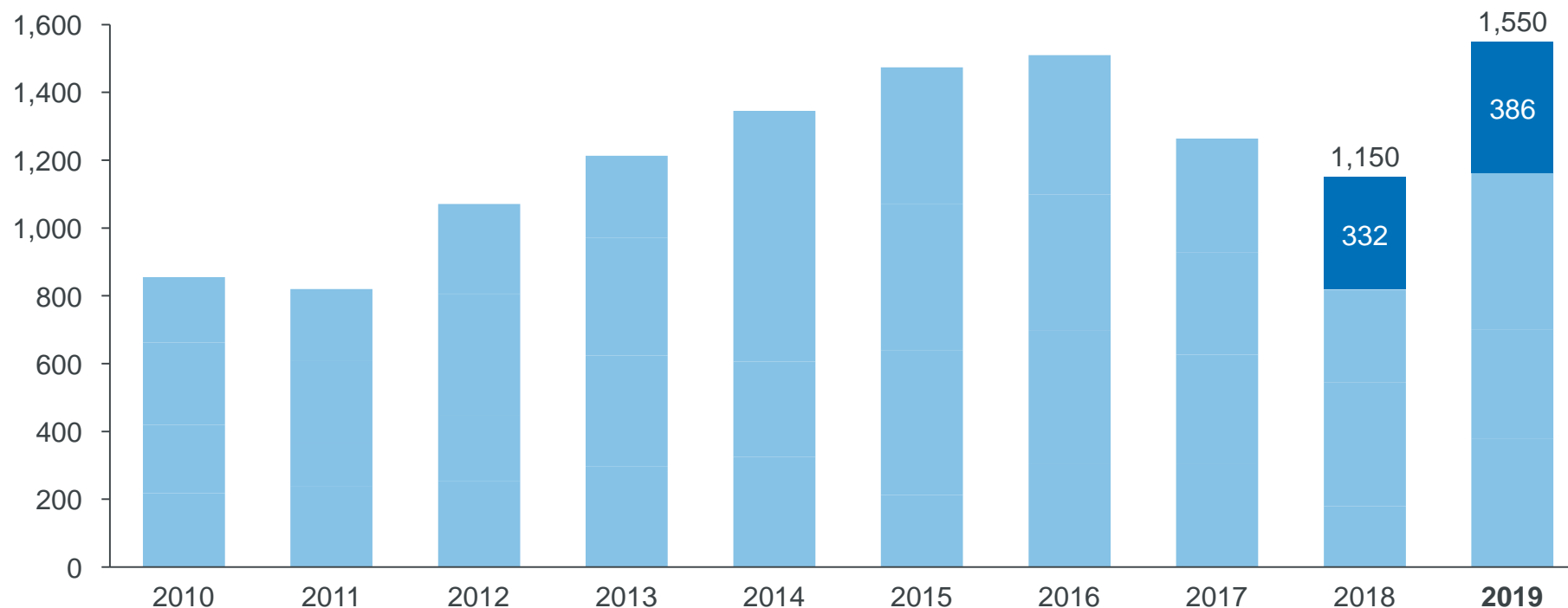
Cash flow

STRONG CASH CONVERSION



Cash flow from operations*

MEUR



- Net working capital contributed positively to the cash flow in 1-12/2019, driven by strong development in advances received and progress payments
- Adoption of IFRS 16 had a positive impact of EUR 119 million on cash flow from operations* in 1-12/2019

* Before financing items and taxes

Market and business outlook for 2020



Market outlook for 2020

New equipment markets

- The new equipment market is expected to be relatively stable or to grow slightly. However, the coronavirus outbreak creates uncertainty to the outlook
- In China, the market is expected to be relatively stable or to grow slightly, while in the rest of the Asia-Pacific, the market is expected to grow slightly
- The new equipment markets in North America and the Europe, Middle East and Africa region are expected to be rather stable

Maintenance markets

- Maintenance markets are expected to see the strongest growth rate in Asia-Pacific and to grow slightly in other regions

Modernization markets

- The modernization market is expected to grow slightly in North America and in the Europe, Middle East and Africa region and to develop strongly in Asia-Pacific



Business outlook for 2020



Sales

- In 2020, KONE's sales is estimated to grow by 0–6% at comparable exchange rates as compared to 2019

Adjusted EBIT

- The adjusted EBIT is expected to be in the range of EUR 1,250–1,400 million, assuming that foreign exchange rates would remain at the January 2020 level. Foreign exchange rates are estimated to impact EBIT positively by around EUR 15 million

Boosting our performance

- ⑦ Improved margin of orders received
- ⑦ Services business growth
- ⑦ Accelerate savings (MEUR ~50)

Burdening our result

- ④ Labor and subcontracting cost increases
- ④ Investing in our capability to sell and deliver digital services and solutions
- ④ Impact of coronavirus outbreak

Summary

- Strategy execution on track – strong competitiveness
- Continued profitable growth expected in 2020
- We continue to invest in renewing ourselves to be able to deliver better outcomes to our customers every day



Dedicated to People Flow™

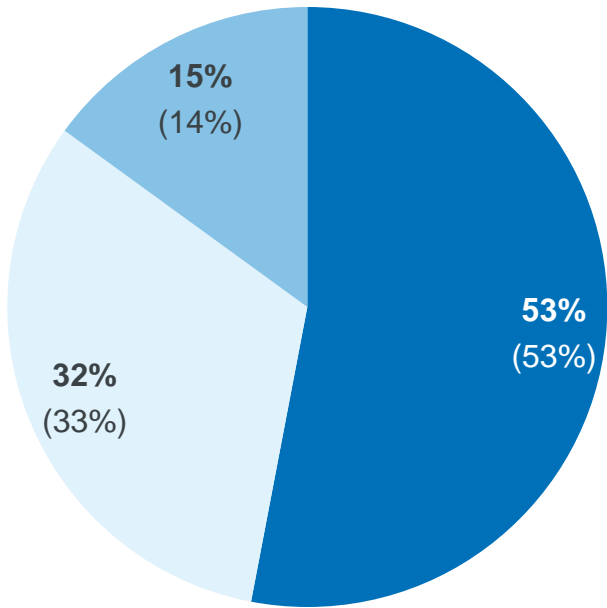


Appendix

1-12/2019 Sales split

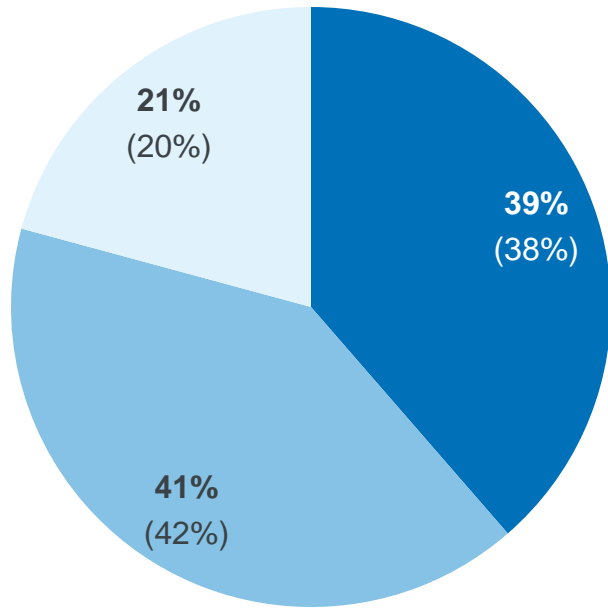


By business



- New equipment
- Maintenance
- Modernization

By area



- Asia-Pacific
- EMEA (Europe, Middle East and Africa)
- Americas

1-12/2018 figures in brackets. Figures in charts are rounded and at historical exchange rates.

Balance sheet

- EUR 358 million increase in the 2019 opening interest-bearing debt
- EUR 83 million increase in capital expenditure on lease agreements in 1-12/2019

Income statement

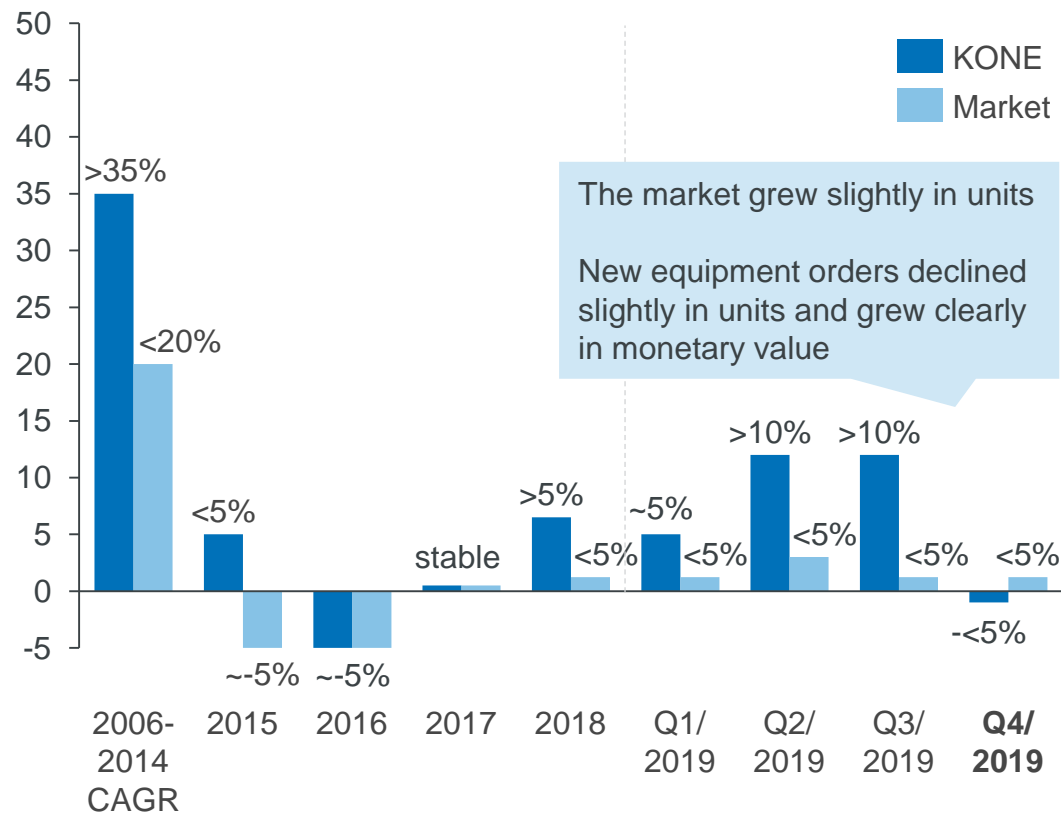
- EUR 0.1 million positive impact on EBIT in 10-12/2019. In 1-12/2019, the positive impact was EUR 6 million
- EUR 3 million increase in financing expenses in 10-12/2019. In 1-12/2019, the increase was EUR 11 million

Cash flow statement

- EUR 32 million positive impact on cash flow from operations (before financing items and taxes) in 10-12/2019. In 1-12/2019, the positive impact was EUR 119 million
- EUR 3 million negative impact on cash flow from financing items and taxes in 10-12/2019. In 1-12/2019, the negative impact was EUR 11 million
- EUR 29 million negative impact on cash flow from financing activities in 10-12/2019. In 1-12/2019, the negative impact was EUR 108 million

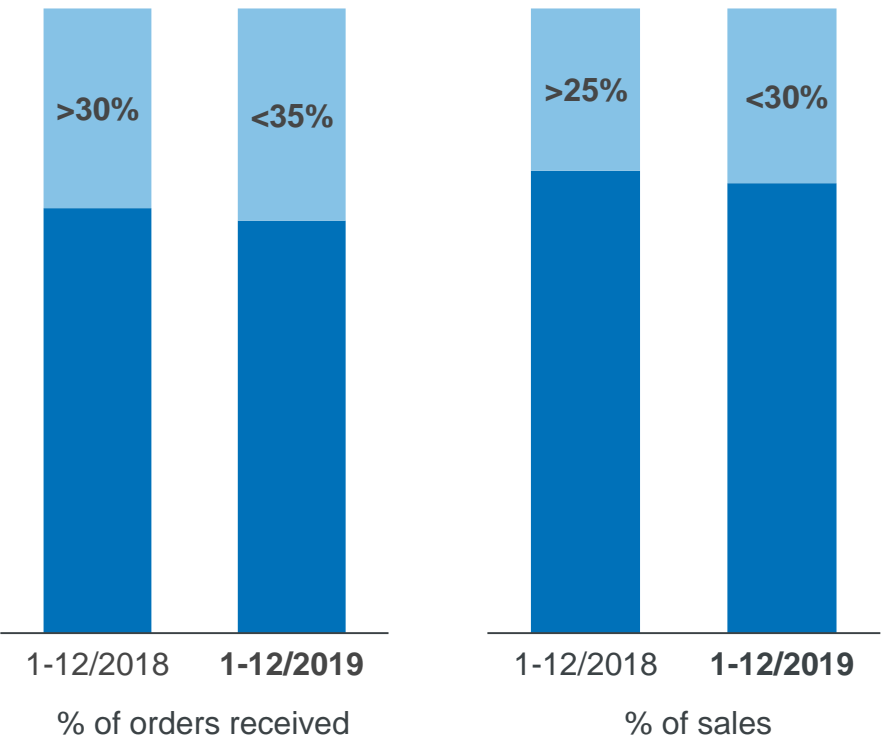
New equipment market

New equipment orders received in units vs. market development



China's share of KONE's orders received and sales

Monetary value

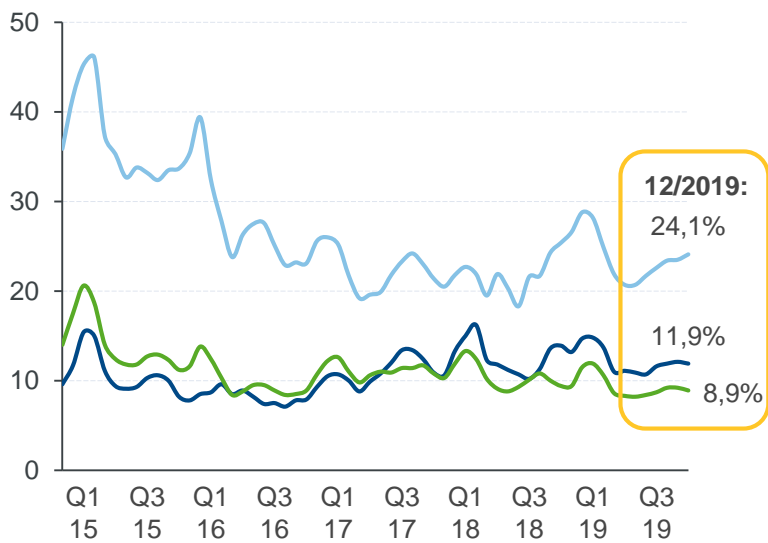


Chinese property market



Housing inventories

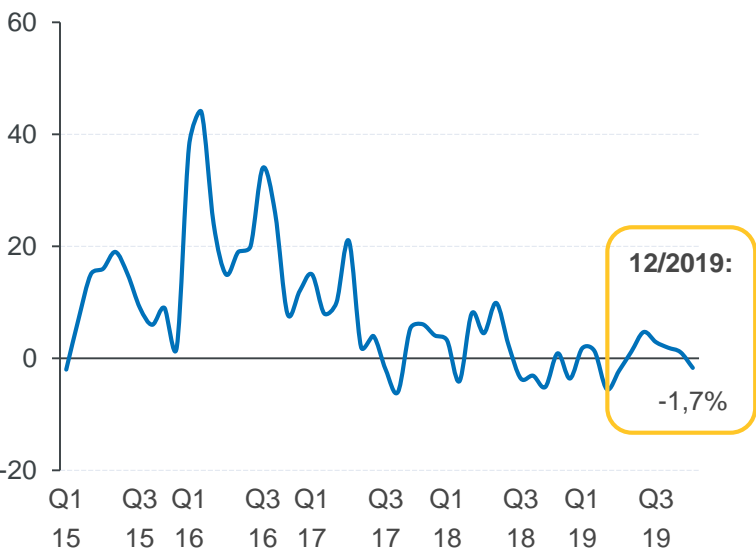
Newly built area for sale / monthly sales 3-m MVA



- Tier-1
- Tier-2
- sample of lower tier cities

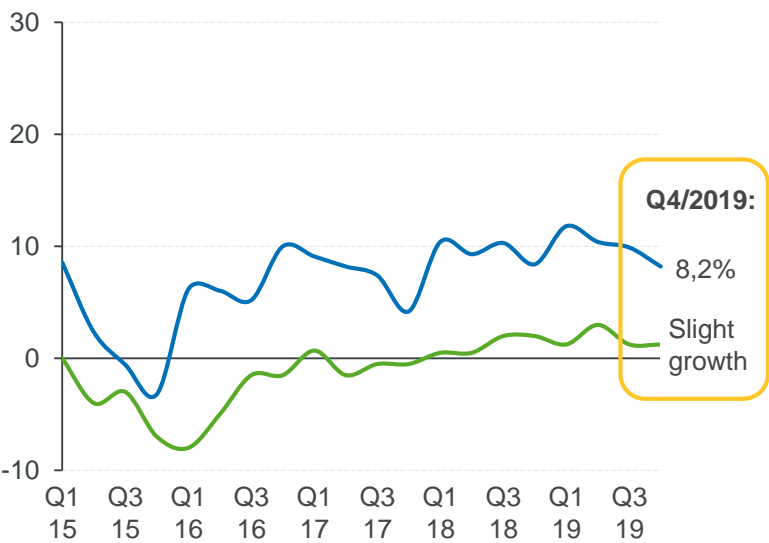
Housing sales

Sales area growth, change Y-o-Y



- Sales area growth

E&E market



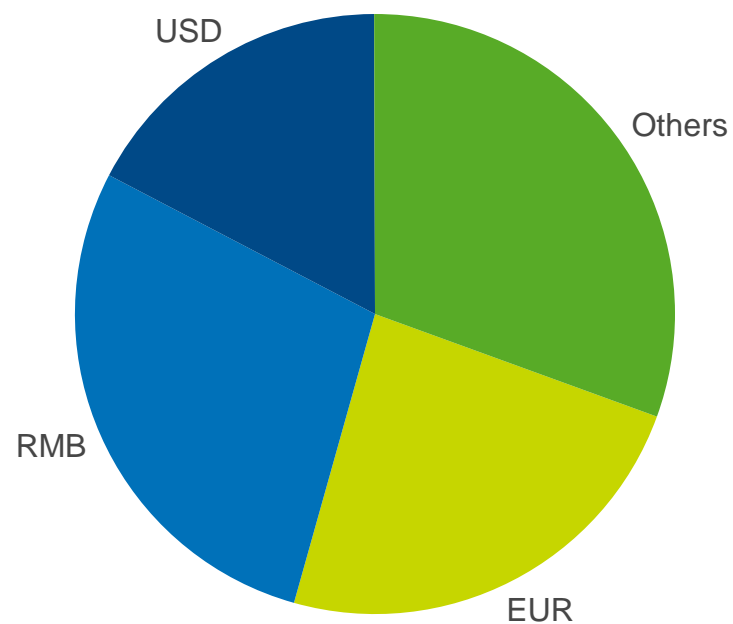
- REI Y-o-Y
- E&E market Y-o-Y in units

Sources: China NBS, E-house, CREIS, KONE estimates

Currencies



Sales by currencies 1-12/2019



Currency impact

MEUR	Q4/2019	1-12/2019
Sales	44	153
EBIT	8	23
Orders received	37	134

Main currencies

	2019 average	2018 average	Dec 31, 2019 spot
EUR / RMB	7.7353	7.8148	7.8205
EUR / USD	1.1214	1.1809	1.1234
EUR / GBP	0.8773	0.8861	0.8508
EUR / AUD	1.6090	1.5794	1.5995

Balance sheet – assets employed



MEUR	Dec 31, 2019	Dec 31, 2018
Assets employed		
Goodwill	1,366.5	1,333.4
Other intangible assets	248.2	260.2
Tangible assets	742.2	397.4
Investments	139.2	143.3
Net working capital	-856.0	-757.8
Assets employed total	1,640.0	1,376.6
Financed by		
Equity	3,192.9	3,080.6
Net debt	-1,552.9	-1,704.0
Equity and net debt total	1,640.0	1,376.6

The adoption of IFRS 16 increased the 2019 opening tangible assets and interest-bearing net debt by EUR 358 million

Net working capital



MEUR	Dec 31, 2019	Dec 31, 2018
Net working capital		
Inventories	648.6	624.1
Advance payments received and deferred revenue	-1,753.8	-1,562.2
Accounts receivable	2,232.3	1,988.3
Other non-interest-bearing assets	669.6	660.5
Other non-interest-bearing liabilities	-1,848.0	-1,647.3
Provisions	-127.1	-139.4
Accounts payable	-809.8	-786.7
Net deferred tax assets / liabilities	132.1	105.0
Net working capital total	-856.0	-757.8

Consolidated statement of cash flows



MEUR	1-12/2019	1-12/2018
Operating income	1,192.5	1,042.4
Change in working capital before financing items and taxes	115.7	-11.2
Depreciation and amortization	241.5	118.9
Cash flow from operations before financing items and taxes	1,549.6	1,150.1
Financing items and taxes	-279.9	-180.2
Cash flow from operating activities	1,269.7	969.8
Investing activities	-121.8	-121.1
Purchase of own shares	-	-
Increase in equity (option rights)	37.5	23.1
Profit distribution	-851.7	-849.2
Changes in non-controlling interest	-3.7	-3.1
Free cash flow	330.0	19.6

The adoption of IFRS 16 had a positive impact of EUR 119 million on cash flow from operations before financing items and taxes